fd

1970 ANNUAL REPORT

CANADIAN CANNERS LIMITED

AYLMER

Del Monte

CANADIAN CANNERS LIMITED AND SUBSIDIARY COMPANIES

Financial Highlights

	Twelve Months Ended May 31 **1970**	Fifteen Months Ended May 31 1969	Twelve Months Ended February 28 (29) 1968	1967	1966
Sales	**$ 54,663**	$ 68,028	$ 53,677	$ 52,251	$ 50,568
Earnings from operations	**692**	754	1,228	1,172	1,818
Earnings from operations per share (1)	**.49**	.54	.87	.83	1.29
Loss from cyclamate ban	**(490)**	–	–	–	–
Gain or (loss) on sale of properties	**1,501**	301	(53)	492	(22)
Net earnings	**1,703**	1,055	1,175	1,664	1,796
Net earnings per share (1)	**1.21**	.75	.84	1.18	1.28
Dividends declared per share (2)	**.50**	.76¼	.75	.75	.75
Working capital	**17,429**	17,778	18,079	16,935	16,500
Capital expenditures	**1,331**	1,452	915	2,039	2,097

Figures in thousands except per share.
(1) Class A and B common shares combined.
(2) Class A only. See note 4 of "Notes to Financial Statements".

DIRECTORS

Wm. Herbert Carr	*San Francisco, California*
L. M. Crandall	*Pembroke, Ontario*
A. L. Croce	*San Francisco, California*
W. I. Drynan	*Hamilton, Ontario*
A. W. Eames, Jr.	*San Francisco, California*
L. H. Johnston, F.C.A.	*Hamilton, Ontario*
R. M. Mapp	*Hamilton, Ontario*
A. L. Nelson	*Hamilton, Ontario*
Leonard A. Philip	*Toronto, Ontario*
W. S. Sewell, Q.C.	*Toronto, Ontario*
J. Leonard Walker	*Montreal, Quebec*
R. B. Yerby, Jr.	*San Francisco, California*

OFFICERS

A. W. Eames, Jr.	*Chairman of the Board*
L. H. Johnston	*President and Chief Executive Officer*
R. Fox	*Vice-President – Corporate Development & Controller*
R. M. Mapp	*Vice-President – Marketing*
A. L. Nelson	*Vice-President – Production*
T. V. McGinn	*Secretary-Treasurer*
A. L. Croce	*Assistant Secretary*
D. W. Munn	*Assistant Secretary*

HEAD OFFICE

44 Hughson Street South, Hamilton, Ontario

SUBSIDIARY COMPANIES

Aylmer Foods Warehousing Limited
Boese Foods Limited
Canners Machinery Limited
The Pyramid Canners Limited
Wagstaffe Limited
Walmer Transport Company Limited

REGISTRAR AND TRANSFER AGENTS

Royal Trust Company, Toronto and Montreal

TRUSTEE FOR DEBENTURE HOLDERS

Canada Permanent Trust Company

AUDITORS

Price Waterhouse & Co.

ANNUAL AND SPECIAL GENERAL MEETING

October 2, 1970, 10:00 a.m. (E.D.S.T.),
Sheraton-Connaught Hotel, (Mezzanine Floor), Hamilton, Ontario

To Our Shareholders and Employees

The canned food industry in Canada is continuing to suffer from difficulties that primarily arise from general economic factors, imports of canned goods and government action. Some products were in an oversupply position and this situation was partially corrected in the 1969 industry packs. The inflationary trend in the economy has increased the cost of production and distribution, and it is anticipated that this trend will continue for the 1970 packs. Strong competitive conditions have prevented selling prices from advancing at the same rate as costs. Continued competition is being experienced from low-priced imported fruit and other canned foods. The guidelines of the Prices and Incomes Commission have imposed further economic and consumer pressures on an industry which has been struggling through uncertain and troubled conditions.

The canned fruit industry suffered a major loss in this past year from the government's decision to ban the use of cyclamates in food products. Over the past twenty years our Company has built up an outstanding reputation and a large market with diabetic and low-calorie consumers for our Diet De Luxe products. The cyclamate ban that was announced by the government in October 1969 had the immediate effect of destroying the consumer acceptance of products containing cyclamates. Permitting the sale of the products for at least a temporary period appears to indicate that they were not considered harmful at normal consumption levels. We believe that there is a continuing need and demand for special diet products. We have developed new formula Diet De Luxe products without cyclamates. Fruit spreads were introduced in May and we will be packing canned fruit products under a new formulation for introduction this Fall.

Sales for the year of $54,663,000 were approximately the same as in the prior twelve months. Earnings from operations for the year ended May 31 1970 were $692,000 or 49¢ per Class A and B common share. The loss resulting from the cyclamate ban was $1,020,000 which amounts to $490,000 (35¢ per share) after applicable income taxes. Gain on sale of properties was $1,501,000 or $1.07 per share, and was primarily from the sale of farm lands in the Niagara Peninsula.

During the year the Company declared five dividends on Class A common shares at the rate of 10¢ per share per quarter, or an annual rate of 40¢ per share. There have been no dividends declared on the Class B common shares since the date of issue October 1, 1956. Substantially all of the Class B shares are owned by Del Monte Corporation. The Holders of Class A and B shares are entitled to cumulative dividends at the rate of 75¢ per share per annum, and the accumulated dividends not declared at June 30, 1970 on Class A shares were $287,000 and on Class B. shares $9,655,000.

Our inventories at May 31, 1970 were in a better balanced position than in any of the past several years. The planned adjustments made during the 1969 packing season have brought our stock position reasonably in balance with the exception of canned peas which required further adjustment in our 1970 packs.

During the year our new Scientific Research Centre in Burlington, Ontario was completed. This Research Centre provides the facilities required to carry on the expanding research programs in food processing that are very important to the development of our Company. We are searching for new varieties of raw produce and methods to improve the quality of raw product and to create production efficiencies. Considerable emphasis is being placed on our search for a tomato variety which will be adaptable to mechanical harvesting and peeling. Pollution control is a matter of great concern to the food industry from the pesticides used in the fields to the waste effluent from the processing operations. Through research and experimentation, our Company is contributing to the development of new methods for controlling pollution.

Again this year our Company will be facing substantially increased costs for labour, containers, packaging materials, and other ingredients. All labour contracts for production workers have been negotiated and signed for 1970. A significant increase in labour rates for seasonal employees will be experienced in the future when the full impact of a recently legislated 27 per cent increase in the Ontario basic labour rate becomes effective in April 1971.

The future provides many challenges for our Company. Earnings from operations have not been at a satisfactory level in recent years. Management is making every effort to correct this situation through a continuous program of improved operating practices and cost control. Additionally, it is necessary that some organizational readjustments be implemented combined with a diversification program. Programs in this direction are presently under way.

Mr. J. E. Countryman, former Chairman of the Board of Del Monte Corporation, retired from the Board of Directors in October 1969, and Mr. G. Arnold Hart, Chairman and Chief Executive Officer of the Bank of Montreal resigned from the Board in January 1970. Mr. A. L. Croce, Vice-President and Secretary of Del Monte Corporation, and Mr. J. Leonard Walker, President of the Bank of Montreal, were appointed to the Board to fill these vacancies. The Board wishes to express its appreciation to Mr. Countryman and Mr. Hart for their valuable contributions rendered during their many years of service. Mr. A. W. Eames, Jr., Chairman and President of Del Monte Corporation, was elected Chairman of the Board on August 22, 1969 to succeed Mr. Countryman.

The strength of any organization is substantially dependent upon its people, its products, and its status in the market-place. The directors wish to express their appreciation for the loyalty and support of our employees in producing high-quality products and service for our customers.

On behalf of the Board of Directors,

A. W. Eames, Jr., *Chairman.*

L. H. Johnston, *President.*

Hamilton, Ontario,
July 24, 1970

CANADIAN CANNERS LIMITED AND SUBSIDIARY COMPANIES

Consolidated Statement of Financial Position

	May 31, 1970	May 31, 1969
Current Assets		
Cash	$ 21,000	$ 11,000
Accounts receivable	6,138,000	5,807,000
Inventories of merchandise, materials and supplies valued at lower of cost or market	21,176,000	24,659,000
Costs allocable to future operations	1,733,000	2,135,000
	29,068,000	32,612,000
Current Liabilities		
Bank and other advances	6,720,000	6,577,000
Accounts payable and accruals	4,365,000	5,436,000
Income and other taxes payable	337,000	696,000
Payments due within one year on long-term debt (Note 2)	170,000	2,125,000
Dividend payable on Class A common shares	47,000	–
	11,639,000	14,834,000
Working Capital	17,429,000	17,778,000
Fixed Assets (details on opposite page)	12,761,000	13,198,000
Other Assets (details on opposite page)	5,824,000	4,367,000
	36,014,000	35,343,000
Deduct:		
Long-term debt (details on opposite page)	2,694,000	3,144,000
Deferred income taxes	4,128,000	4,476,000
	6,822,000	7,620,000
Shareholders' Equity	$ 29,192,000	$ 27,723,000
Represented by:		
Capital stock (details on opposite page) (Note 4)	$ 6,297,000	$ 6,297,000
Earnings retained and used in business	22,895,000	21,426,000
	$ 29,192,000	$ 27,723,000

Approved on behalf of the Board
A. W. Eames, Jr., Director
L. H. Johnston, Director

Details of Items in Accounts

	May 31, 1970	May 31, 1969
Fixed Assets		
At cost		
Land	$ 665,000	$ 1,096,000
Buildings	8,162,000	7,984,000
Machinery and other equipment	19,124,000	18,477,000
	27,951,000	27,557,000
Less: Accumulated depreciation	15,190,000	14,359,000
	$ 12,761,000	$ 13,198,000
Other Assets		
Mortgages and long-term receivables	$ 2,581,000	$ 1,124,000
Intangibles — brand names, trade marks, patents, processes, goodwill, etc.	3,243,000	3,243,000
	$ 5,824,000	$ 4,367,000
Long-Term Debt (exclusive of payments due within one year)		
5% Sinking fund debentures maturing June 15, 1973	$ 1,760,000	$ 2,040,000
Mortgage and notes of subsidiary company payable by installments to 1977	934,000	1,104,000
	$ 2,694,000	$ 3,144,000
Capital Stock		
Class A common shares without nominal or par value Authorized — 1,000,000 Issued — 468,137	$ 2,099,000	$ 2,099,000
Class B common shares without nominal or par value Authorized — 2,000,000 Issued — 936,274	4,198,000	4,198,000
	$ 6,297,000	$ 6,297,000

Auditors' Report to the Shareholders of Canadian Canners Limited

We have examined the consolidated statement of financial position of Canadian Canners Limited and its subsidiary companies as at May 31, 1970 and the consolidated statements of earnings, earnings retained and used in business and source and use of funds for the year ended May 31, 1970. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these consolidated statements present fairly the financial position of the companies as at May 31, 1970 and the results of their operations and the source and use of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Hamilton, July 24, 1970

Price Waterhouse & Co.,
Chartered Accountants.

Consolidated Statement of Earnings

for the twelve months ended May 31, 1970

	Twelve Months Ended May 31 1970	Fifteen Months Ended May 31 1969
Sales and operating revenues	$ 54,663,000	$ 68,028,000
Costs and expenses		
Costs and expenses excluding items listed below	51,888,000	64,746,000
Depreciation	1,240,000	1,535,000
Interest on long-term debt	143,000	243,000
Income taxes	700,000	750,000
	53,971,000	67,274,000
Earnings from operations	692,000	754,000
Extraordinary items		
Loss of $1,020,000 resulting from cyclamate ban less income tax reduction of $530,000	(490,000)	–
Gain on sale of properties	1,501,000	301,000
Net earnings	$ 1,703,000	$ 1,055,000
Earnings per share (Class A and B common combined)		
Earnings from operations	$ .49	$ .54
Loss from cyclamate ban	(.35)	–
Gain on sale of properties	1.07	.21
Net earnings	$1.21	$ .75

Consolidated Statement of Earnings Retained and Used in Business

for the twelve months ended May 31, 1970

Earnings retained at June 1, 1969	$ 21,426,000	
Net earnings for the year	1,703,000	$ 23,129,000
Dividends declared on Class A common shares		234,000
Earnings retained at May 31, 1970		$ 22,895,000

Consolidated Statement of Source and Use of Funds

for the twelve months ended May 31, 1970

Source of Funds		
Earnings from operations	$ 692,000	
Loss from cyclamate ban	(490,000)	
Depreciation	1,240,000	
Deferred income taxes	(348,000)	
Funds from operations	1,094,000	
Proceeds from disposal of properties	2,029,000	$ 3,123,000
Use of Funds		
Investment in fixed assets	1,331,000	
Dividends on Class A common shares	234,000	
Reduction of long-term debt	450,000	
Increase in mortgages and long-term receivables	1,457,000	3,472,000
Decrease in Working Capital		(349,000)
Working Capital at June 1, 1969		17,778,000
Working Capital at May 31, 1970		$ 17,429,000

Notes to Financial Statements

1.—The company changed the fiscal year end from the last day of February to May 31, during 1969.

2.—The 5% Sinking Fund debentures due June 15, 1970 amounting to $280,000 were redeemed prior to May 31, 1970.

3.—At May 31, 1970, Canadian Canners Limited and its subsidiary companies had long-term leases expiring in various years through 1994 covering land, buildings and equipment. The average annual rentals payable under these agreements are estimated at $541,000 for 1971-76, $386,000 for 1977-81, $155,000, for 1982-94.

4.—The holders of Class A common shares are entitled to cumulative cash dividends at the rate of 75¢ per share per annum in priority to any dividends on the Class B common shares. Dividends have been paid on the Class A common shares up to and including September 30, 1968 at the rate of 75¢ per share per annum and subsequently at the rate of 40¢ per share per annum. Subject to the prior rights of the Class A common shares, the holders of Class B common shares are entitled to cash dividends accumulating from the date of issue on October 1, 1956 at the rate of 75¢ per share per annum. To June 30, 1970 the accumulated dividends not declared on Class A common shares amount to $287,000 and on Class B common shares amount to $9,655,000. After the Class A and B common shares have received payment of all accumulated dividends, Class A and B common shares share equally in any dividends in excess of 75¢ per share per annum.

5.—The remuneration received during the year ended May 31, 1970 by directors and senior officers amounted to $141,000, including directors' fees and salaries of officer directors amounting to $87,000.

OUR CURRENT ADVERTISING THEMES.
NOS THEMES COURANTS DE PUBLICITE.

AYLMER HAS A FLAVOUR
ALL IT'S OWN...
CALLED CANADA

AYLMER CONSERVE LE
BON GOUT DE CHEZ-NOUS

AT DEL MONTE, WE'VE GOT
MOTHER NATURE ON OUR SIDE

CHEZ DEL MONTE, LA MERE
NATURE EST DE NOTRE BORD

Interim Report to Shareholders

AYLMER

Del Monte

FOR THE SIX MONTHS ENDED NOVEMBER 30, 19[illegible]

CANADIAN CANNERS LIMITED HAMILTON, ONTARIO

For checking

CANADIAN CANNERS LIMITED AND SUBSIDIARY COMPANIES

To Our Shareholders

The unaudited consolidated financial results for the six months ended November 30, 1970, compared with the six months ended November 30, 1969, are summarized below:

	Six Months Ended November 30	
STATEMENT OF EARNINGS	1970	1969
Sales and Operating Revenues	$ 25,575,000	$ 24,948,000
Costs and Expenses	24,623,000	23,998,000
Income Taxes	500,000	490,000
Net Earnings for the Six Months	$ 452,000	$ 460,000
Net Earnings per Class A and B Share	.32¢	.33¢
STATEMENT OF SOURCE AND USE OF FUNDS		
Source of Funds		
Net Earnings	$ 452,000	$ 460,000
Depreciation	999,000	900,000
Deferred Income Taxes - Operations	(110,000)	(49,000)
- Other	51,000	-
Mortgages and Long-Term Receivables	69,000	33,000
	$ 1,461,000	$ 1,344,000
Use of Funds		
Net Investment in Fixed Assets	$ 966,000	$ 610,000
Dividends on Class A Shares	94,000	140,000
Reduction of Long-Term Debt	400,000	400,000
	1,460,000	1,150,000
Increase in Working Capital	1,000	194,000
	$ 1,461,000	$ 1,344,000

The sales and operating revenues of $25,575,000 for the first six months of the year are 2.5% greater than the revenues of the prior year for the same period. The net earnings of $452,000 or 32¢ per share are 1.7% less than 1969.

The net earnings for the second quarter of this year at $250,000 were improved over the $215,000 of net earnings for the second quarter a year ago. However, this improvement fell short of expectations as substantial merchandising allowances were required to maintain volume under the competitive conditions. The recent emergence of the strong low price competitive situation in the consumer market will adversely affect the earnings of food manufacturers.

We are very pleased with the response to the introduction of our new formula low calorie line of DIET DE LUXE fruits. The trade and consumer acceptance has been favourable and we are certain that DIET DE LUXE fruits will be re-established as one of our significant product lines.

The winter merchandising programs are now in progress. The AYLMER "Taste of Canada" program is being featured on television during the winter months. The DEL MONTE "Safari" program will be assisted by the return of "Mother Nature" to television during February.

At a meeting held on January 26, 1971, the Board of Directors declared a dividend of 10¢ per Class A Common share for the quarter ending March 31, 1971, payable on April 1, 1971, to shareholders of record on March 3, 1971.

On or about February 1, 1971, arrangements will be completed for the purchase of all of the outstanding shares of Duncan Lithographing Company Limited, a Hamilton Ontario based producer of labels and folding packages. This step in our diversification program will contribute significantly to the operations of the Company.

Alfred W.Eames, Jr.,
Chairman

L.H.Johnston,
President

Hamilton, Ontario, January 26, 1971

AR79

CANADIAN CANNERS LIMITED

BOX 540 44 HUGHSON STREET SOUTH HAMILTON 20, ONT.

TELEPHONE (416) 522-2441 CABLE ADDRESS "CANNERS"

Comments on the Company's overall financial condition given by Alfred W.Eames, Jr., Chairman of the Board of Canadian Canners Limited, at the Annual Meeting of Shareholders held October 2, 1970

"As has been indicated in the 1970 Annual Report which was distributed to all shareholders and employees, the Company has experienced a combination of business and economic factors that have adversely affected the earnings position of the Company. While current forecasts of earnings are indicative of improved earnings in the future, these have not yeat been realized. Without adequate earnings, the Company will be unable to pay current dividends and dividend arrears, retire long-term debt, and provide funds for expansion into profitable activities. Or particular concern to your Directors and Officers is the large amount of cumulative dividends not declared and not paid on the shares of the Company.

As you know, the Company has two classes of shares outstanding, the Class A Common shares and the Class B Common shares. The holders of the Class A Common shares are entitled to receive (if, as and when declared) cumulative cash dividends at the rate of 75 cents per share per annum in priority to any dividends on the Class B Common shares. After payment of such dividends on the Class A Common shares, the holders of the Class B Common shares are entitled to receive (if, as and when declared) cumulative cash dividends at the rate of 75 cents per share per annum. For any further declaration of dividends, the shares of the two classes participate in equal amounts per share.

There are 468,137 Class A Common shares out-standing, which are held by approximately 3,000 shareholders and comprise one-third of the total capital shares. There are 936,274 Class B shares outstanding, which comprise the remaining two-thirds of the total capital shares outstanding. About 12,000 Class B Common shares are held by the public, and the remaining Class B Common shares are owned by Del Monte Corporation. As you will see in the "Notes to Financial Statements" in the Annual Report, accumulated dividends not declared on the Class A Common shares amounted to $287,000 to June 30, 1970. No dividends have ever been paid to shareholders of the Class B Common shares from the time when they were first created in 1956. The "Notes to Financial Statements" also show that the accumulated dividends not declared on the total Class B Common shares amounted to $9,655,000 to June 30, 1970. The Directors of the Company are rightly concerned that the Company is paying dividends on the Class A Common shares while no dividends have been paid on the Class B Common shares over a period of almost 15 years.

I can assure you that much detailed thought has gone into these problems. The Directors and Officers of the Company have taken steps to cut costs and increase efficiency; however, as Mr.Johnston has pointed out to you, the continual increases in costs of raw produce and costs of processing have more than offset the savings effected. Selling prices in the canning industry continue to be depressed. Never-the less, we continue to be hopeful about the future of our Company and our industry in Canada. What we are confronted with is the need to generate more funds with which to expand our more profitable operations and diversify our activities into areas which will produce a greater as well as a more rapid return on investment.

As with most companies, our source of funds is from earnings, depreciation, and borrowings. Our use of such funds is for required investment in assets, repayment of debt, and for dividends. Matching up the sources with the uses indicated to us quite clearly that for the long range, earnings will have to increase or we will have to reduce dividends.

This problem is being given continuing study by your Directors and Officers, and we think you should be aware of our efforts to strengthen the long range position of the Company. While the facts and figures appear in the Company's Annual Report, it was felt that the situation should be stressed at this Annual Meeting of Shareholders."